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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

<u>Overview</u>. The reports from the Federal Reserve Banks suggest little overall strength in economic activity. Current economic conditions are generally characterized as ranging from weak or sluggish to stable, flat, and mixed; with the exception of the Tenth and Eleventh Districts where business activity is seen as somewhat better. Expectations for the future are in contrast to the current situation, with optimism prevalent in varying degrees among most Districts commenting on the outlook. San Francisco's report of "gloomy" expectations for economic activity in the Twelfth District is the major exception.

<u>Consumer Spending</u>. The current performance of consumer spending varies across the country from improving slightly to remaining sluggish. Dallas, Kansas City, Chicago, New York, and Boston report sales as slightly improving. Sales in the San Francisco, Minneapolis, and Cleveland Districts are described as weak or sluggish, while the Atlanta and Richmond Banks report sales to be essentially flat. Substantial gains in new domestic automobile sales—due to the rebate programs—are reported by most Districts, but the gains are expected to disappear with the termination of the rebates.

<u>Manufacturing</u>. While manufacturing activity varies considerably from District to District and from industry to industry, there is little evidence of strength. New York and St. Louis emphasize the different levels of activity in various industries, as does Boston where the demand for high technology output is softening. Philadelphia and San Francisco call industrial activity unchanged or flat, while Minneapolis reports current weakness. Cleveland

*Prepared by the Federal Reserve Bank of Kansas City notes that capital goods spending may have reached a trough, but Chicago says that "orders for business equipment remain at depressed levels in real terms". Steel demand, however, is showing surprising strength.

Inventories. Inventories of both retailers and manufacturers are being kept under tight control, and are generally viewed as being at satisfactory levels. The only significant difference was reported in the Richmond District where, although retailers' inventories are generally at desired levels, there has been some recent buildup in stocks. Also, manufacturers' inventories in the Fifth District are now reported as somewhat higher than desired.

Prices. Moderation in recent price increases and optimism over the price outlook were reported by some of the Reserve Banks. Although Philadelphia noted that "industrial prices have jumped again in the Third District," Boston, Chicago, and Kansas City reported observations of moderating tendencies in price increases. Optimism about deceleration in inflation was expressed in the reports from Cleveland and Kansas City.

Construction. Housing activity continues to be weak according to most District reports. Atlanta and St. Louis note an increase in potential customer traffic recently, but with little effect on sales. The effects of weakness in housing include continued depressed demand for home furnishings and building materials (Boston) and great financial strain on small builders (Cleveland). In some Districts (Atlanta, Richmond, St. Louis) strength in commercial and/or industrial construction is helping to offset the weakness in housing. Chicago, however, also reports weakness in nonresidential construction. Dallas stands alone in reporting overall strength in construction activity, with residential construction advancing steadily and commercial activity booming.

Financial Developments. Reserve Banks generally describe loan demand as flat or weak and sluggish, occasionally noting a direct relationship to weakness in the District economy. Business loan demand is sluggish at large commercial banks in New York, while Richmond and Atlanta note a slight pickup in business loan activity. In the Tenth District, business loan demand is flat-to-weak except in energy areas. Total bank loan volume is up in the Dallas District, with energy-related industries accounting for most of the growth. In both Philadelphia and New York below-prime lending activity has increased.

Agriculture. In most reporting Districts recent rainfall has eased the problems of low soil moisture conditions. As a result, wheat and pasture conditions have improved in the St. Louis, Kansas City, and Dallas Districts. In the Minneapolis District, however, continued drought and falling farm prices threaten the agricultural sector. Chicago and Kansas City report financial difficulties for livestock producers, and Chicago notes that farm income estimates for the year have been adjusted downward.

FIRST DISTRICT—BOSTON

First District respondents report a pronounced softening in the demand faced by manufacturers of high technology products. These firms were relatively unaffected in the early stages of the recession. Manufacturers of more traditional products who were affected earlier have seen no further deterioration but also no signs of a pickup. Retail sales appear to be keeping pace with inflation. Housing starts are minimal. Smaller banks report business is slow; loan demand is just holding at last year's level.

The region's high technology manufacturers, which fared well in the early stages of the recession, are now seeing a softening in demand. The fall-off has been particularly pronounced for electronics components, but manufacturers of computers, word processors, and measuring and control devices also seem to be affected. Layoffs have been small and firms are still hiring experienced professionals.

Manufacturing activity in areas other than high technology seems to have stabilized. There were signs of a pickup in home furnishings and appliances in December but this proved short-lived. One executive described the home furnishings business as "dead". The demand for building materials, such as lumber, siding and roofing, remains depressed. Firms producing a variety of capital goods report that recent orders have been disappointing; while there may not have been a deterioration a stronger performance was expected. An exception is a manufacturer of specialized machinery for the process industries; here new orders are strong and point to an unusually good year.

Price increases appear to be moderating. A recent survey of local purchasing agents showed a substantial increase over the month in the number reporting no change in the prices of purchased materials and components and a substantial decrease in the number reporting higher prices. In addition, several of the manufacturers interviewed have seen a slowing in price increases. A dissenting comment came from a buyer of snythetic fabrics: cutbacks in capacity attributable to the recession are causing price increases despite weak demand. Manufacturers are generally satisfied with inventory levels.

In the retail sector, general merchandise sales are said to be healthy. Higher quality and off-price items are particularly strong; the middle of the range is the weakest area. Overall, retail sales seem to be growing at or a little above the rate of inflation.

Professors Houthakker, Samuelson, and Tobin were available for comment this month. Houthakker anticipates that real growth will average zero to 1 percent this year and 2 to 3 percent next year. He endorses the current money growth targets and hopes that interest rate constraints will not deflect the Fed from achieving its announced targets. There is no reason to support the dollar by limiting interest rate declines in coming months, and the prospective Federal deficit provides no excuse for limiting interest rate increases later this year because Federal tax cuts will be nearly matched by spending cuts. Houthakker does not believe that the rapid decline in interest rates during the second quarter last year was a mistake. "The big mistake was controlling credit; once the controls were lifted, the economy resumed its growth."

Samuelson believes that the "President's forecast is overly optimistic in its entirety, no part is as improbable as the whole put together." The announced money growth targets cannot accomodate both 9 percent inflation and 3 or 4 percent real growth. "With the Fed's monetary targets, growth will probably average 1 or 2 percent during the next five years while the inflation rate declines to 7 per cent in 1985." Samuelson, like Houthakker, does not believe the Fed should "fine tune" interest rates. Samuelson encourages the FOMC to ask itself if "the Fed should alter its announced policy to take account of interest rates." Once growth declines, should policy become more restrictive? "Should we resist the normal decline in interest rates consistent with slower GNP growth given our money targets?" As they stand, the announced monetary targets accommodate little growth. If real growth fails to fulfill even these modest expectations, Samuelson wonders if the Fed "wants to be an accessory."

Tobin agrees with Samuelson that real growth will be squeezed in the collision between inflation and monetary policy. Tobin disagrees with the Administration's strategy of selling the new fiscal policy as the cure for inflation. It is monetary policy that has been assigned the goal of fighting inflation, and yet the public does not understand that the Fed's targets will accommodate new investment, production, and jobs only if wage and price increases are reduced significantly. "How can policy be credible if it is kept a secret? How can the threat in monetary policy be taken seriously if the threat is not explained to the people?" Tobin hopes the Fed has learned at least one lesson from last year's experience: when GNP declines, interest rates should not be propped up by the Fed. Constraining the decline in interest rates in the second quarter exaggerated the swing in GNP and money growth. The high interest rates in late 1980 were not caused by the second quarter's "low yields;" the rapid money growth during the third quarter coupled with the Fed's desire to meet its year-end target produced last year's record interest rates.

SECOND DISTRICT—NEW YORK

Economic activity in the Second District continued mixed in February and early March. Retail sales increased at most stores, though a few merchants reported disappointing results. Domestic car sales picked up a bit at some dealers, due in large part to the rebate programs; foreign car sales also improved. Outside the consumer sector, economic activity appeared to be generally flat. Yet a number of respondents did indicate that their companies had experienced a modest improvement in business in recent weeks. Despite the stronger than expected performance of the national economy in the first quarter, the consensus forecast still calls for sluggish growth over 1981 as a whole. Many respondents expressed enthusiasm for the direction and substance of the new Administration's tax and expenditure proposals. None, however, indicated that the proposals had led them to change their own production and capital-spending plans.

Consumer Spending. The February gains in Second District retail sales were weaker than during the Christmas season, but somewhat stronger than in November. Mild weather and widespread promotional price-cutting accounted for the February pickup. Generally, inventories were reported at satisfactory levels and under continued close surveillance.

Automobile sales in the Second District strengthened in recent weeks. To a large extent, however, the sales gains have been the result of the substantial rebates offered by domestic car makers. Yet sales of some imported cars also improved, and dealers in these cars anticipate further gains during the spring. Inventory positions vary greatly. Some were reported low because of the high cost of carrying inventories while others were described as adequate or high.

The Manufacturing Sector. Economic activity in the Second District outside the consumer sector was somewhat mixed though many respondents experienced an improved situation in recent weeks. A spokesman for the petroleum industry noted a softening of demand compared to a year ago due to greater conservation efforts and warmer weather, and some upstate capital goods firms report a continued low level of new orders. However, moderate pickups in new orders occurred at several firms including a chemical equipment manufacturer that supplies oil refiners, a home furniture and furnishings manufacturer, and an automotive company. In addition, a major food company foresees that 1981 will surpass last year's record performance, a large cosmetics and jewelry manufacturer reports continued gains following an acceleration in sales which began late last year, and an industrial equipment manufacturer has experienced strong demand from commercial and industrial construction firms.

Economic Outlook. While several economists saw business activity in the first quarter of 1981 coming in stronger than they had anticipated, they have not changed their forecast of a 1 to 1-1/2 percent rise in real GNP for the year as a whole. Retailers anticipate a positive impact on sales during the second half of 1981 resulting from the enactment of President Reagan's proposed personal income tax cut, and some manufacturers expect the rise in defense expenditures to stimulate the economy in general and provide orders for their defense-oriented customers. Others, however, expect the near-term effects of the tax and expenditure cuts to be offsetting. The proposed accelerated depreciation program is not expected to have much immediate impact, in light of the current low level of capacity utilization and the less than buoyant level of final demand.

Financial Developments. Business loan officers at large commercial banks report that business loan demand has been sluggish. Respondents generally agree that a slowing of economic activity and competition from the commercial paper market have contributed to the weakness in bank loan activity. However, in the wake of the recent decline in market interest rates relative to the prime, respondents reported that below-prime lending has been brisk, but very competitive.

Financial Panel. This month we have comments from Henry Kaufman (Salomon Brothers), Francis Schott (Equitable Life Assurance Society), and Albert Wojnilower (First Boston Corporation).*

Kaufman: A double-dip in economic activity will not occur. Besides a much larger than expected increase in real GNP this quarter, the economic path for the balance of this year will include about 2 percent real growth in the second quarter and 3 to 4 percent for the second half of this year. The distinctive features of the continued expansion will include no cyclical support from housing, a big increase in defense expenditures, prudent business monetary practices (constrained by high interest rates) and renewed strength on corporate liquidity later this year when interest rates will reach new highs in the long term bond markets.

Schott: Prospects for disinflation, largely created by well-judged monetary policy, are being converted into reality. Progress will be slow

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*Their views are personal, not institutional.

because of the institutionalization of inflation. Yet, psychological factors have turned distinctly favorable for three reasons: (1) the Administration's expenditure control proposals have credibility, including prospects for Congressional acceptance; (2) Federal Reserve restraint has resulted in renewed liquidity pressures at intermediaries, which is reflected in cautious loan policies; and (3) the soft spots in the economy, such as housing, automobiles and farm machinery have created apprehensions about significant business failures. These apprehensions have dampened speculation.

Wojnilower: Current statistics and reports from business contacts suggest that the economy remains strong and that the Reagan program is prompting more expansionary planning by business firms. The decline in interest rates likely is setting up a repeat performance of last summer's acceleration of business and upsurge in interest rates—but this time it will be from a stronger base of business activity and without the caution induced by preceding credit stresses.

Indications are that longer term bond issues, initially by banks but probably followed by others, are accelerating sharply. Buying of such securities, however, remains limited largely to pension funds and to fiduciaries and speculators who expect to remain interested in the bond market only very briefly.

THIRD DISTRICT - PHILADELPHIA

Reports from the Third District indicate that business activity for the month of March is sluggish to mixed. Area manufacturers say industrial activity is showing some signs of expansion in March but has remained basically unchanged for the third consecutive month. The continued stability in manufacturing activity may have put a halt, at least temporarily, to cuts in factory employment observed since last April. As for the future, manufacturers anticipate a sharp upswing within the next six months which may give labor a boost as well. Retail sales are up overall in March, but a mass transit strike in the Philadelphia metropolitan area has dropped sales in downtown stores 50 percent. Looking ahead, retailers are a bit more optimistic than they have been in recent months, anticipating increased sales by September. In the financial sector, area bankers report sluggish loan activity. Consumer loans are down from a year ago, while C&I loan volume is slightly better, but still not strong. In efforts to bolster business loan demand, many banks have increased below-prime lending activity and are offering fixed-rate loans to businesses that want them. In the coal industry, the Third District will feel some impact should the United Mine Workers call a general strike on March 27, as planned. Area utility companies and manufacturers appear ready, however, having stockpiled supplies that would last one to three months.

INDUSTRIAL

Area industrial activity is showing some signs of expansion in March, but has, according to the respondents to the latest Business Outlook Survey, remained basically unchanged for the third month in a row. With these results in, it appears that the first quarter of 1981, in general, has been a period of little or no growth for Third District industry. In terms of specific indicators this month, new orders and shipments are up from February. Inventories, however, have held steady for the fifth consecutive month, as local manufacturers may be waiting for stronger signals on the economy before building their stock levels. As for labor, the continued stability in area manufacturing activity may have put a halt, at least temporarily, to the cuts in factory employment observed since last April. Survey participants report no real change in their payrolls or the average workweek over last month.

For the longer term, respondents to the survey continue to be optimistic, anticipating a sharp upswing in general industrial activity within the next six months. Over one-half of the survey participants expect new orders and shipments to grow between now and September, and, as production pick ups, manufacturers plan to increase factory payrolls and lengthen the average workweek a bit. Higher expenditures on plant and equipment are also forecast.

On the inflation front, industrial prices have jumped again in the Third District, as over one-half of the survey respondents report paying more for raw materials than they did last month, and about one-fifth say they are charging more for their finished products. Prices are expected to continue climbing, as 9 out of 10 of the survey participants anticipate higher input costs by September and nearly 8 out of 10 plan price hikes for the goods they sell.

RETAIL

The Philadelphia metropolitan area has been enduring a mass transit strike since March 15, as Transport Workers Union leaders and SEPTA (Southeastern Pennsylvania Transportation Authority) officials try to work out a new contract agreement. Downtown Philadelphia stores have been hit hard by the strike, with shopkeepers reporting daily sales down 50 percent from pre-strike levels. Spokesmen for major area retail chains estimate that their center city department stores account for only about 20 to 25 percent of their companies' total sales volume though, and that lost sales in center city have been made up for, in part, by increased volume in suburban stores. Many local merchants have reduced their evening hours for the duration of the strike. Although the strike will probably have only temporary effects on the retail community, some longer-term damage may be done as well. As a Director of this Bank notes, merchants "can't be sure if consumers will maintain the same willingness to spend" that they displayed a few weeks ago.

Outside of the downtown area, March sales are up over last year's levels, about 7 to 10 percent, owing mainly to new spring lines and growing consumer confidence, according to area contacts. Sales of soft goods—apparel and small household items—continue to be strong, with big ticket items starting to pick-up as well.

As for the future, area retailers are a bit more optimistic about the second half of 1981 than they've been in recent months, expecting sales to run at least 3 percent above year-ago figures. According to some contacts, consumer confidence in the Reagan Administration is growing, as "they try to get a handle on inflation." Area retailers are keeping the lid on inventories, though, and plan no changes for stock levels, hoping to keep inventory-sales ratios healthy.

FINANCIAL

Area bankers report sluggish-to-mixed loan activity in March. Consumer loans are down 14 to 16 percent from a year ago, mainly because banks continue to take a restrictive posture towards retail lending. Business loan volume is better, but still not strong. Reports of C&I loan activity range from 4 percent below to 6 percent above March 1980 levels, which is in-line with bankers' expectations for the most part.

In an effort to bolster business loan demand, many banks have increased below-prime lending activity and are also offering fixed-rate loans to businesses that want them. Takers for fixed-rate loans may be scarce, though. One reason cited for the weak loan demand was that many businesses have put off borrowing for six months or so, when they expect interest rates to be significantly lower.

Third District bankers are currently quoting a prime rate of 17 1/2 percent. They, like area businessmen, expect the prime to continue to drop, leaving the rate 200 to 300 basis points below its current level by September.

Two developments have occurred since the last Redbook in the Third District financial sector. The first took place in Delaware where Governor Pete du Pont signed into law the Financial Center Development Act, eliminating all usury ceilings in the state, allowing variable rate consumer loans to be made, allowing banks to charge fees for the use of credit cards, and giving tax breaks to banks establishing operations in Delaware. Two major New York banks have already set plans in motion to move credit card operations to the state, and, although no major Philadelphia banks have announced definite intentions to follow suit, they are carefully examining the costs and benefits of doing so.

Also this month, in attempts to match the advantages offered to depositors by money market funds, a major mutual savings bank in Philadelphia started offering a six-month savings certificate with a floating rate that was to be tied to the six-month T-bill rate and change weekly. The $10,000 certificate was available to savers with at least $5,000, who could then borrow the balance from the bank. The certificate was pulled from the market after only one day, however, when the FDIC ruled that the terms violated a number of regulations. There were a few actual sales though, and those buyers were given a choice of converting to a conventional six-month money market certificate or taking a refund.

COAL

Pennyslvania is a major coal-producing state, and the Third District will feel some impact should the United Mine Workers call a general strike March 27, as planned. Area utility companies and manufacturers appear ready, however. According to a survey polling local manufacturing executives, only about 14 percent of the respondents use coal directly in their businesses. About 5 percent of the survey participants report stockpiling coal in anticipation of a strike and have supplies that would last one to three months. As for utilities, a strike this month would not have an immediate impact. Electric utitilies report having an 80- to 90-day stockpile of coal and, with the winter heating season coming to an end, power consumption will be falling off. Area utilities also have the capacity to produce electricity using oil-fired boilers, should the coal run out. Subsequently, they are not expecting to find it necessary to cut back power.

FOURTH DISTRICT - CLEVELAND

Summary. Respondents in the Fourth District expect output next quarter will probably weaken from the first quarter and indeed may decline, but they forecast a more rapid recovery in the second half of 1981 than projected by the Reagan Administration. Near-term inflation may also improve more than indicated in the Administration scenario. Retail sales in the District remain weak, except for auto sales, which have improved in response to widespread rebate programs. Steel orders and shipments are holding up well. Although capital-goods spending has not yet turned around, some signs of bottoming out are reported. Housing is weak, but industry officials foresee declining mortgage rates in the second quarter of 1981.

Outlook. The Fourth District Round Table forecasts of 28 economists on March 13, 1981, were generally more optimistic for 1981 than indicated in the Reagan scenario. The median forecast shows growth in real GNP of about 2.4% between the fourth quarter of 1980 and the fourth quarter of 1981, but with an increase in the implicit price deflator of 9.4% and an unemployment rate of 7.5% in the fourth quarter of 1981. Only one of the group expects a two-quarter decline in real GNP, as a result of strains in financial markets, while 11 expect a one-quarter decline in real GNP next quarter of less than a 1% annual rate. Rates of change in real GNP, according to the median forecast, are expected to accelerate to about 4% and 5% in the fourth quarter of 1981 and the first quarter of 1982, respectively.

Prices and Output. Round Table economists were sympathetic with, but doubtful of, the Reagan scenario for prices and output into the mid-1980s. A bank economist pointed to an inconsistency between a projected decline in money stock growth and double-digit growth rates in nominal GNP during 1981-84, implying faster-than-trend growth in velocity. He acknowledged that even his projections of growth in output of 3% to 3½% and 4% to 5% in the GNP price deflator by 1984 imply somewhat above-trend growth in velocity. Another economist asserted that the Administration's projected growth in output might be achieved and that price performance may be somewhat better than in the Reagan scenario until 1983-84, when supply constraints would reverse the near-term moderating trend in prices. Optimism over the price outlook stems from an expected cyclical recovery in productivity, supported by deregulations that will improve cost performance and by less intense pressure from COLA clauses as inflation begins to unwind.

Consumer Spending. Recovery in real retail sales in the Fourth District has been weak and well below the national average because of softness in the District's economy. An economist associated with a major national department store chain expects retail sales in the District to continue to be sluggish. Nationally, he expects nominal retail sales to increase 10½% from the fourth quarter of 1980 to the fourth quarter of 1981. Department store sales will increase only 9% because of an expected slow recovery in furniture and appliance sales. In 1982, an 11% increase in retail sales is expected, with real growth between 4% and 4½%. Inflation and the latest Social Security tax increases will slow but not stop the recovery in consumer spending.

Auto sales in this District picked up because of the recent rebate programs, which an industry economist estimates boosted new car sales 150,000 units nationally. A foreign car dealer reports a 12% increase in sales since the beginning of the year, but does not expect imports to gain market share during 1981. An auto economist notes that high interest rates have not deterred auto sales as much as expected, but have constrained dealer purchases and inventories. He cites a big shift in auto financing from banks and credit unions to auto finance companies, which are offering lower interest rates.

Steel. Steel orders over the past four weeks have been running higher than expected, according to several industry economists. Even sheet steel has been relatively strong in recent weeks, partly because auto production schedules in March were above February's. Steel shipments in the first quarter will be marginally higher than in the fourth quarter of 1980 and are expected to increase by two million tons in the second quarter, mostly because of seasonal factors. Forecasts for 1981 show a 7% increase in shipments from 1980, with the volume of imports no higher than in 1980. The bulk of the improvement in steel shipments during 1981 stems from an end to inventory liquidation.

Capital Goods. Capital-goods spending appears to have troughed. Noting some firming of orders during the first quarter, a durable goods producer expects a recovery in factory sales of nonelectrical machinery throughout 1981. Factors contributing to the recovery include an expected 2% real growth in durable and nondurable goods consumption, a better-than-expected level of construction outlays, a slowly rising trend in capacity utilization rates, and a declining user cost of capital. Heavy-duty truck sales are expected to increase about 8% during 1981, with deregulation having no adverse affect on overall truck buying. However, metal cutting orders have continued to slip throughout the first quarter, according to a machine tools producer, and as yet have shown no sign of turnaround. Backlogs have been reduced to less than 14 months from a peak of 18 months in July 1980. Capital spending should accelerate over the next few years because of proposed tax policies and capacity constraints that may surface by 1982. However, economists with steel and rubber producers assert proposed business tax changes will not speed investment until enough cash flow is generated to support higher spending.

Housing. The bulk of the thrift institutions in the District may show losses through the first half of 1981, but the industry will remain viable, according to an economist with a regional FHLB. Rates on jumbo CDs and money market certificates have declined from three months ago and should allow some easing in the cost of funds and mortgage rates in the second quarter of 1981, according to an S&L official. In addition, deposit flows are expected to be positive, although weak, in 1981. Another S&L official reports that NOW accounts have surpassed expectations, but remain a small portion of total deposits.

Housing starts are expected to fall below 1980's pace, according to a major area builder, with funds for speculative building virtually shut off at the present time. A bank economist reports that small builders are under severe financial strain and have contributed to bankruptcies among their subcontractors and to income problems of several area S&Ls that financed speculative building. A bank economist believes that mortgage rates may decline to 13% in the near future if the cost of funds continues to ease.

FIFTH DISTRICT - RICHMOND

Overview

Fifth District manufacturing activity appears to have stabilized in recent weeks. New orders are virtually unchanged from the last survey period and shipments have picked up noticably. Retail sales, except for automobiles, are flat to up slightly but sales of big ticket items have slipped relatively. Manufacturers' inventories have begun to accumulate and there has been some further buildup of stocks in the retail sector. Manufacturers still find inventory levels somewhat higher than desired. Residential construction and sales are almost uniformly weak. Commercial and industrial construction, however, shows scattered strength. Consumer loan demand is characterized as weak to moderate. Business loan demand is up but still below a year ago. Expectations of future activity have improved decidedly in recent weeks.

Consumer Spending

Retail sales other than automobiles have been essentially flat over the past month to six weeks. Auto sales, despite some response to various rebate programs, remain extremely weak. There are also reports of softness in sales of other consumers durables and apparel. Consumers are continuing to favor quality merchandise and are apparently willing to pay the higher prices necessary to get it. Inventories at the retail level have changed little since our last survey and remain generally in line with desired levels. Employment among retailers remains unchanged and there is little sentiment for increasing the number or size of outlets. Some retailers have become more restrictive in opening new charge accounts in an attempt to cut costs.

The Manufacturing Sector

There was a broad increase in shipments by District manufacturers in the past month. The volume of new orders, however, was virtually unchanged, on balance, and order backlogs are substantially below the levels of a month ago. Manufacturing inventories have risen recently. Additions to stocks have been almost entirely in finished goods. Nearly half of the manufacturers surveyed still find current stocks somewhat above desired levels. Most respondents feel current plant and equipment to be appropriate to present needs, but nearly one fourth find it in excess. Nonetheless, there is virtually no sentiment for revising current expansion plans. Manufacturing employment appears to have declined slightly over the month and the average work week shrank farther. Prices received by our respondents have stabilized but prices paid continue to increase broadly.

The recent stability of new orders has prevailed across most industries. No major industry reports any pervasive weakness. There are pockets of strength even in such industries as primary metals and furniture. The softest spots, judging from our survey results, are perhaps the building materials and consumer electronics groups. The weakness recently reported in retail sales of apparel has apparently not reached the manufacturing level to date.

Housing and Construction

There has been little change in the housing sector. Weakness continues in most parts of the District but there are indications that inventories of new and previously occupied housing units may have increased somewhat. There is little expectation now that residential construction this spring will exceed the levels of a year ago. Some Richmond directors now feel that it will be difficult to match year ago levels in their areas. Reports continue to suggest that nonresidential construction is holding up and continuing to take up some of the slack in the residential sector.

The Financial Sector

There are indications that business loan demand is picking up, at least in some areas. By and large, however, it remains below what would be considered normal levels. Consumer loan demand continues weak to moderate. Automobile loans have shown some scattered increases, but from severely depressed levels and remain very slow by almost any standard. There is little expectation that consumer loan demand will show significant strength in the immediate future. There is some sentiment, however, for the view that encouraging economic news, should it come, could have a disproportionate positive effect.

The Outlook

Manufacturers responding to our survey have become decidedly more optimistic since the last survey period. Forty percent of them now expect the level of business activity, nationally, locally, and in their respective firms to improve over the next six months. Very few expect activity to decline over that period. Retailers expect activity to be at least as good in six months as now. A majority of our directors expect wage gains to more nearly keep pace with inflation this year adding some impetus to consumer spending. The prospects for a coal strike have been depressing activity in some areas of the District. Recent developments suggesting only a very brief strike might also have positive effects in the near term.

SIXTH DISTRICT - ATLANTA

Cautious optimism characterizes the attitude of the business community at this time. There is renewed confidence that the economy may be making a gradual turnaround. Auto sales are up, and home builders report increased customer activity. Factory payrolls and hours are accelerating. Prospects for agricultural income have brightened.

Consumer Spending and Inventories. Retail sales have been holding their own at best. Consumers continue to be selective. They are taking advantage of sales and are limiting impulse buying. A chain store executive indicated that a renewed promotional effort would be required to "get sales moving." Credit card sales have dropped off as consumers resist incurring additional debt. Delinquencies are decreasing in all areas. Merchants' inventories were well balanced in most cases.

Auto dealers report that rebates are generating new car sales. Many potential new car buyers had deferred purchases because of the high sticker prices of the 1981 models. The auto dealers hope that customer enthusiasm will continue into spring, normally a strong season for new car buying.

Financial and Construction. Residential building contractors are also looking to spring for strong sales. Customer traffic has been heavy lately, and several real estate firms have added employees to their sales staffs. Repair and alterations to existing residences have picked up. There is sentiment that mortgage money will not dry up in the near term. However, strong demand may tend to preserve interest rates at relatively high levels. Consequently, buyers must set aside more of their disposable income for housing. Lending institutions are beginning to relax their underwriting requirements in response to the greater commitments of consumers.

Commercial construction has positive momentum, particularly in northern and central Florida. Financing is available, but participations and equity kickers are involved. Most previous commitments are proceeding on schedule.

Large banks reported declines in consumer loans and loans to nonfinancial institutions. Business and real estate loans picked up slightly. NOW volume in the District is still growing. Demand deposits are declining moderately; inflows to time deposits continued due to the appeal of money market certificates.

Employment and Industry. Manufacturing payrolls moved ahead briskly in January on the strength of advancing factory hours and hourly earnings. Construction materials producers are gearing up for a strengthening sales picture. Recalls of steelworkers in northern Alabama helped offset the impact of the closing of a large equipment-producing plant there.

Tourism, Florida's largest industry, has been adversely affected by cold weather, publicity about violent crime in Miami, and rising air fares. Hotel, restaurant, and automobile rentals are down as much as 20 percent in south Florida. The cruise business is also down notably, and ship operators are trying to combat the problem by offering bargain rates. State tourism and industry leaders hope that an aggressive promotional campaign will bolster the state's sagging tourism industry before Easter. Visitors spent an estimated $17 billion in Florida during 1980, state records show.

Agriculture. Increased rainfall has brightened prospects for agricultural income recently. A bumper winter wheat crop now seems more likely. Prices of vegetables and grapefruit rose sharply in February, reflecting reduced supplies following January's freeze. Orange prices dropped abruptly as farmers rushed fruit to processing plants in an attempt to avoid losses from deterioration following the freeze. On the whole, prices in the livestock sector were stable while feed costs, particularly hay for cattle feeding, soared.

SEVENTH DISTRICT - CHICAGO

Summary. Economic activity in the Seventh District is unlikely to show any marked change, up or down, in the months immediately ahead. However, large gains for the second quarter will be reported for many sectors, e.g., autos and steel, in comparison with the same period of 1980 when sharp declines occurred. Some sectors report a moderation of price inflation, but there is little hope for a slowing in worker compensation. Many analysts hope for real gains in the second half, assuming that credit conditions continue to improve. In general, capital goods demand is weaker than consumer goods demand. Businesses are keeping inventories very lean. Construction activity remains severely depressed but there has been some revival in home sales. Many businesses, consumers, and state/local governments are grappling with financial problems. Farm income forecasts have been adjusted downward.

Inflation. Significant price reductions are reported for cement and ready-mix concrete. Prices of gypsum board and gasoline are soft. Increases for general merchandise and some components have moderated. Most auto insurance rates will not rise this year. Despite these favorable signs, purchasing agents expect average prices to rise 9-11 percent in 1981. Labor costs are not moderating overall. Further substantial increases in transportation costs and utility charges are inevitable. Chicago area mass transit fares rose by one-third at year end and a further rise of 25 percent is under consideration if state subsidies are not arranged.

Labor markets. Entry level jobs are probably harder to find in this region than at any time since the years before World War II. Help-wanted ads in Chicago papers are running 40 percent below last year, and volume is dominated by ads for programmers, accountants, various other skills, and commission sales people. The job situation reflects generally poor economic conditions, closings of obsolete facilities (especially in inner cities), increasing automation, and hiring cutbacks by state/local governments. Despite weak demand for workers, compensation rates continue to rise. Labor demands in current negotiations have not moderated, and attempts to renegotiate existing compensation packages are given little chance to succeed except in cases where unions are convinced that facilities will be closed if concessions are not granted. In the public sector, Milwaukee firemen recently won "parity" pay with police after a strike. The police union immediately asserted its aim to restore a differential in its favor.

Consumer expenditures. Major retailers report a gradual improvement in general merchandise sales in February and March. Special promotions (encouraging "cherry picking") and mild weather have helped. Credit sales are still lagging. Delinquencies and writeoffs of credit are "bad" with the new bankruptcy law a big factor. Microwave ovens are the only really strong household appliance. Airline travel is down 15 percent from the 1979 peak with advance bookings showing no improvement. Hotel occupancy rates have declined in Chicago, partly because of reduced convention business.

Motor vehicles. The auto rebate program was very successful. Some dealers reported that sales doubled during the period when rebates applied to the most popular models. However, sales dropped sharply on March 20 when the rebate program was sharply curtailed. Rebates did not apply to truck sales and they remained severely depressed. Sales are still expected to revive in the second quarter, helped by new models (especially GM's J-car), and pressure of pent-up demand. Floor plan rates were recently cut to 18.75 percent, down from a peak of over 22 percent, but still high enough to keep most auto dealers in financial trouble. Many dealers are said to be close to the point of deciding on liquidation. Used car prices are strong, largely reflecting the low rate of new car sales.

Steel. Steel demand is showing surprising strength in virtually all markets. Second quarter shipments will be well above last year. A leading district producer will be operating close to capacity. The auto industry is ordering steel in line with increased production schedules. Recent increases in "trigger" prices have caused some foreign steel producers to close their sales offices here.

Capital goods. Orders for business equipment remain at depressed levels in real terms, barely sufficient to keep plants operating at current reduced rates. One diversified capital goods producer, which had enjoyed surprising strength in new bookings in January, reported that February business fell back again. Rail equipment output is falling rapidly. Retail sales of heavy trucks and trailers slipped in the fourth quarter and remained at this reduced level in early 1981. Orders for heavy castings are at about 60 percent of capacity. Construction equipment demand is still very weak, but two closed plants have been reopened on a limited basis because of depleted inventories. Some leading producers will not exhibit at the materials handling show, to be held in Chicago in April, for the first time in memory. Farm equipment is mixed, but generally soft. Oil and gas development equipment is one of the few capital goods sectors reporting vigorous demand.

Real estate. Residential construction is not reviving, despite some pickup in transactions in existing homes. Nonresidential construction is also weak, except for the Chicago Loop area where new buildings are still leasing briskly. S&Ls are quoting mortgage rates in the 15.5 to 18 percent range, plus three points, and plus fees of $100-$300. But few regular loans are being made. Transactions frequently involve loan assumptions, contract sales, second mortgages, or some combination of features. GPMs, SAMs, and RRMs are also part of the picture. Some insurance companies are offering commercial mortgages again, often with equity participations.

Agriculture. Farm prices remain at lower levels than analysts in the area had anticipated. Current estimates for farm exports and farm income suggest smaller gains than had been indicated earlier. Livestock producers, particularly, have seen profit margins cut by the cost-price squeeze. Upward pressures on retail food prices have eased. High interest rates and disappointing earnings prospects have dampened capital outlays by farmers.

Finance. Liquidity of S&Ls has improved, but many are facing erosion of net worth and are extremely cautious in making new loans. Business loan demand from district businesses reflects the depressed state of activity here, but some large banks have increased loans rapidly by participating in syndicated loans, especially to energy companies. Financial stringency of business, especially small firms, is indicated by the fact that the number of firms delinquent in paying Illinois unemployment taxes is double the level of three years ago.

EIGHTH DISTRICT - ST. LOUIS

According to reports from several area businessmen, overall economic activity in the Eighth District has remained unchanged in recent weeks. Department store representatives noted increases in sales, but these gains were less than price markups. Car dealers realized substantial increases in unit sales, but these gains are expected to recede when current price concessions by manufacturers are removed. Manufacturing activity generally continues sluggish and homebuilding very low. On the other hand, demand for energy-efficient equipment, oil and gas drilling equipment, defense-related equipment and commercial construction remains strong. In the financial sector, loan volume was unchanged in recent weeks and interest rates, except for mortgage loans, have declined. In the agricultural sector, moisture conditions have improved somewhat in drought areas although subsoil moisture remains low.

Retail sales in late February and early March were bolstered by substantial gains in automobile sales. These gains, however, are expected to disappear as the rebates are terminated. Department store sales rose in February and early March but remain below last-year's level after adjustment for price increases. Largest gains were reported for discount outlets.

Manufacturing of products for the automobile and housing industries remains very sluggish, whereas the output of items related to energy production, energy conservation and defense equipment continues to expand. A representative of a major appliance firm noted that while February sales were somewhat greater than expected, orders in the first half of March appeared to be slowing. A decline in contract sales of appliances is also expected in the next two or three months, if the February decline in housing starts continues. Representatives of two major chemical firms reported depressed demand for their products from the automobile and housing sectors but a pickup in demand from other sectors. A spokesman for the lumber industry noted further declines in demand, indicating that further cutbacks in output and employment may be necessary. On the other hand, firms producing such energy-efficient equipment as heat-recovery boilers and energy-efficient motors report a continued high level of sales. Oil drilling activity in Arkansas is increasing, as approximately 20 new wells are drilled each week. Present prices allow developers to drill wells with low output that would have been uneconomical 10 years ago.

The inventory of domestic automobiles has been reduced as a result of the rebate program. Among those retailers and manufacturers contacted, no substantial inventory problems were reported.

Residential housing activity, already at a low level, apparently worsened in the past six weeks. Although builders report a substantial number of prospective homebuyers looking at model homes, few homes are being sold. Because of high interest rates, most prospective home buyers cannot qualify for loans on the types of homes they desire. Some localities that issued local housing bonds to reduce borrowing costs report these funds nearly depleted. In addition, government construction, such as highway projects, has declined substantially. Commercial construction activity, in contrast, continues at a high level in the District.

Loan volume has been flat in recent weeks. While most interest rates have declined, mortgage rates have remained in the range of 14-3/4 percent to 15-1/2 percent. Representatives of savings and loan associations report that associations are now in a loss situation. Heavy promotion of NOW accounts resulted in a sizable number of new accounts, but fewer promotions have occurred recently, resulting in slower growth in these deposits. Life insurance companies also report poor current earnings, reflecting largely the high interest rates which encouraged policyholders to borrow against the cash value of their policies.

Abnormally low moisture conditions in much of Arkansas and Missouri have eased somewhat in recent weeks but subsoil moisture remains low. The wheat crop of relatively large acreage is in good condition. Among livestock producers, hog growers report that continued losses of 5 cents to 10 cents per pound are being realized, and cattlemen report that the mild winter has held down costs of wintering herds.

NINTH DISTRICT--MINNEAPOLIS

In February and early March, business activity in the Ninth District continued to be sluggish. General merchandise sales along with manufacturing investment and production continued to expand modestly; automobile sales were still poor, although they did rebound from January's very depressed level; taconite mining and lumber milling remained at January's low level; and home and winter recreational spending declined. In addition, price declines and drought continued to threaten agricultural producers. Reflecting these weaknesses was the continued sluggishness in bank lending.

Consumer Spending

Consumer spending remained slack. Bank directors state that auto sales remained poor in February and early March, but they did rebound from January's very depressed level. The Minneapolis/St. Paul regional sales offices of domestic automobile manufacturers report a 22 percent increase in car and truck sales between January and February. Other consumer spending either failed to pick up or declined. General merchandise sales, according to Bank directors, continued to advance at January's slow pace, and home sales declined. In February and early March, mortgage loan applications at Minneapolis/St. Paul area S&Ls were down 28 percent from January's low level. Along with this decline was a drop in winter recreational spending as unseasonably warm weather and rains sharply curbed skiing and snowmobiling in the eastern half of the district.

Industrial Production and Inventories

Industrial activity was also weak. Directors' comments indicate that in February and early March manufacturing investment spending and production continued to expand at January's slow pace. This sluggishness continues to be attributed to high interest rates and to uncertainties about consumer and business spending. High interest rates and economic uncertainties, the Minnesota Department of Economic Development reports, are keeping many manufacturers from going ahead with expansion plans. According to a large Minneapolis/St. Paul manufacturer, these factors are also causing firms to cut back on their ordering and reduce inventories. Not only is manufacturing slow, but in February and early March taconite plants and lumber mills continued to operate well below their capacity.

Agricultural Conditions

Directors continue to be concerned about agricultural conditions. Our last Redbook reported that falling prices and drought threatened the district's good agricultural conditions, and these threats persist. While Minneapolis grain and soybean prices did not change appreciably between January and mid-March, South St. Paul's cattle and hog prices declined about 5 and 8 percent, respectively, during this period. February and early March did not bring the needed moisture, so most of the district is currently classified by the National Weather Service as experiencing moderate to severe drought.

Financial Developments

Reflecting the weaknesses in the district economy was the continued sluggishness in bank lending. In February and early March, lending at banks throughout the district remained at January's low level, and Bank directors report that banks in their areas have plenty of funds to lend.

TENTH DISTRICT—KANSAS CITY

Overview. The economy of the Tenth District appears stable-to-slightly improving. Modest increases in retail sales are expected to continue. Inventory levels are generally viewed as satisfactory. Housing starts remain weak but inventories of unsold homes are not excessive. Loan demand is generally flat-to-weak except in energy growth areas. The winter wheat crop is in fair-to-good condition in spite of generally dry soil conditions.

Retail Sales and Inventories. Virtually all Tenth District retailers contacted report gains in total dollar sales in the first two months of 1981 compared to the same period last year. The sales gains in early 1981 in the District also show some slight improvement over fourth quarter 1980 sales. Retailers indicate that recent sales are strongest in apparel and other soft goods. Although durable goods sales are still weak relative to early 1980 levels, there have been recent improvements in appliance and furniture sales.

Most Tenth District retailers report merchandise cost increases in early 1981 of 5-10 per cent in contrast to negligible increases in the last half of 1980. Recent increases in merchandise costs have put some downward pressure on profit margins as most retailers try to remain price competitive.

Nearly all Tenth District retailers report satisfaction with inventory levels during January and February of 1981, when improved sales lowered stock-to-sales ratios. While all retailers expect to watch those ratios closely to keep inventories in line, inventory purchasing is expected to increase slightly because most District retailers expect sales to continue to improve through 1981. In particular, second and third quarter sales are expected to be up appreciably compared to a year earlier when the credit restraint program was influencing sales in part of the period.

Manufacturers' Inventories and Input Prices. Over half the purchasing agents contacted report that input prices are above their year-ago levels by less than 10 per cent, and about half report a stabilizing trend in recent months. One-half of the companies contacted are optimistic inflation will begin to decelerate. Lead times on deliveries are satisfactory throughout the District. Materials inventories are being maintained at low levels, although most companies report they are buying at least as many input materials as last year. As in January, about one-half the companies contacted report excess operating capacity and laid-off workers.

Housing Developments. Homebuilders' Associations indicate that housing starts are currently running a little behind last year's slow pace. Most feel, however, that the number of 1981 starts will show a small improvement over 1980. There are no reports of excess inventories of unsold homes. New home prices in the District continue to rise at about a 12 to 15 per cent annual rate. Due to some mill shutdowns there are some local lumber shortages, but other materials are readily available though prices are rising somewhat.

Agriculture. The winter wheat crop is in a fair-to-good condition across the District, despite a lack of snow cover during the winter. Wheat pasture use has been very limited. Soil moisture conditions remain dry throughout the District, with Nebraska appearing to have the most serious moisture shortfalls. Dry soil conditions may encourage a shift in farm planting decisions toward more soybeans and less corn acreage than would be suggested by current price relationships. Energy costs for pumping irrigation water are approximately 20 to 25 per cent higher this spring than a year ago. Fertilizer supplies are adequate this spring with prices up about 15 per cent over 1980. Many cattle producers throughout the District are experiencing significant financial difficulties. Some producers are losing as much as $150 per head on the sale of fed cattle. Feeder cattle numbers appear slightly higher and weight is generally greater than in 1980. With many cattle producers facing liquidity problems this spring and dry rangeland prospects this summer, feeder cattle markets may see strong selling pressure this spring.

Banking Developments. Reports on loan demand at Tenth District banks are mixed this month. Banks in the energy-oriented areas of Oklahoma and Wyoming report strong demand for commercial and industrial loans, while banks elsewhere in the District generally report demand to be flat-to-weak. Real estate, agriculture, and consumer loan demand is generally weak in most parts of the District. The prime rate is between 17 and 17 1/2 per cent at most Tenth District banks, down from 20 per cent in January. However, banks report little customer reaction to the decrease in lending rates.

Deposits at Tenth District banks are generally rising, with much of this strength coming from money market certificates and NOW accounts. All banks contacted are currently offering NOW's and most report them to be quite successful. While demand deposits are generally down, most banks attribute this weakness to the advent of NOW accounts and seasonal factors. Most banks report that time deposits other than MMC's, and savings deposits other than NOW's, are either stable or declining. About one-half of the banks contacted are allowing their large CD's to run off as a result of weak loan demand. However, banks with strong loan demand are successfully marketing their large CD's.

ELEVENTH DISTRICT--DALLAS

The economy of the Eleventh District is expanding slowly, and the outlook is for a continued slow rate of growth. Department store sales show increases in excess of the rate of inflation, and new car sales are rising in response to manufacturers' rebate programs. Loan volume and deposits are increasing at commercial banks but declining at S&Ls. Construction activity is rising, with the boom in commercial projects continuing and the rate of housing starts increasing slowly. Respondents in the manufacturing sector report no changes in output and employment levels.

Nominal sales at District department stores have risen slightly since the time of the last Redbook survey and are up 12 percent from year-ago levels. Continued increases are expected in coming months. Respondents attribute the increase in sales to unseasonally warm weather and a relatively low level of consumer debt. Use of retail stores' credit cards is rising moderately. Apparel and other soft goods account for most of the growth in sales. Purchases of furniture and appliances are depressed, and these items are being promoted heavily. Inventories are lean but in line with managements' sales projections.

Automobiles sales are being stimulated by manufacturers' rebates, but dealers expect sales to fall when the promotions end. Sales of foreign and domestic models for which rebates are not available are also up. Prices on used cars are rising, and models in "good" condition remain in short supply. Inventories of new cars are trim.

Total loan volume at commercial banks is up slightly from the previous survey period. Energy-related industries account for most of the growth in loans. Other manufacturers are holding down financing needs by tightly controlling inventories. Large firms are substituting commercial paper for bank loans. Many banks are restricting consumer loans, on which yields are limited by state usury ceilings. S&Ls report a continued decrease in mortgage lending, but the level of construction financing is unchanged. Foreclosures on interim construction loans are up slightly as some builders of single-family houses experience cash flow difficulties, but this is not a major source of concern for S&Ls.

The volume of deposits is slightly higher at commercial banks but declining at S&Ls. NOW accounts show continued growth but at a decreasing rate. Deposits in certificate accounts are down from last month.

Overall construction activity in the District is still rising. Commercial building is being fueled by a heavy inflow of foreign funds and shows no sign of slowing. Also, state laws prohibit insurance companies from owning residential property, so these institutions are investing solely in commercial projects. Residential construction--led by apartments, townhouses, and condominiums--is advancing steadily from a previously low rate of starts. Costs of construction materials are leveling off, apparently because the low volume of residential starts and the decline in nonbuilding construction have reduced demand.

Manufacturers report no significant changes in levels of production, new orders, and employment, and they expect none in coming months. Inventories remain tightly controlled. The defense industry is preparing to increase production, but the impact is not yet being felt in the local economy. Chemical producers report small rises in production and sales from previously depressed levels. Materials costs are stabilizing in most industries, although chemical manufacturers are attempting to pass on price increases. Refiners plan to temporarily close some plants due to falling sales and record inventories. Capital expenditures for most firms are limited to modernization for increased efficiency instead of expansions in capacity.

Planting of primary crops is nearing completion in South Texas, and rains have given a needed boost to winter wheat and pastures across much of the District. Farm loan demand at rural banks remains seasonally weak. Requests for farm loan extensions and renewals have been more numerous than usual in areas where severe drought was experienced last year.

TWELFTH DISTRICT—SAN FRANCISCO

Expectations for economic activity are gloomy in the Twelfth District. Activity in the region continues to be sluggish. Firms are being very conservative about their spending plans. Most feel that the economy is in a very vulnerable position. Although automobile sales have picked up in response to the rebate programs, concern is being expressed over the automobile industry. Housing activity continues flat because of high mortgage rates. Lack of rainfall and the fruit fly problem are major concerns to agricultural interests. Savings and Loan Associations are worried about their financial conditions and are anticipating merger activity.

INDUSTRIAL ACTIVITY continues flat in the Twelfth District. Most firms appear to be taking a conservative attitude with regard to capital expenditures. Inventories are being maintained at minimum levels with no apparent plans for increases in the near future. Some indicate that the economy appears to be in a very vulnerable position and are curtailing activity. High interest rates and energy costs are thought to be especially worrisome problems.

The HOUSING market continues to be depressed. With mortgage rates in the 14-1/2 to 16 percent range, most people are either unwilling or unable to obtain mortgage loans. Conventional financing is almost non-existent. Despite the fact that some interest rates are dropping, mortgage rates are still rising in some areas. Little activity in residential housing is anticipated until mortgage rates drop below 13 percent. The slowing of residential real estate activity has apparently weakened the upward trend in housing prices. One respondent knowledgeable of the field reported that the national increase in housing starts is vastly misleading. It was indicated that after taking into account the distortion in housing starts because of the mild winter, it appears that activity is weakening and that the industry is at a virtual standstill in many areas.

AUTOMOBILE sales have responded favorably to the rebate program being offered by the major U.S. automobile manufacturers. However, expectations for the automobile industry are gloomy. It is feared that the rebate program only changes the inter-temporal purchasing behavior of car buyers. The increased sales presently occurring will be offset by reduced sales in the coming months.

The general lack of rainfall in the region may create problems for some AGRICULTURAL areas. However, most areas are reporting that no hardships are likely because of adequate reserves. The Mediterranean fruit fly problem in California has created a great deal of concern both within the state and nationwide. Currently the problem is isolated in one area but catastrophic consequences could occur if the fruit flies spread. Efforts are being taken to prevent the fly from spreading to some of the major agricultural areas of California. Texas is concerned over the fly moving interstate and placed a quarantine on all California fruit, much to the dismay of Californian agricultural interests.

RETAIL SALES remain sluggish. The surge in sales that took place in December has not continued into 1981. Sales of durable goods have been especially slow. Some note an increase in the use of credit cards. But, they also note that collection problems appear to be on the rise.

UNEMPLOYMENT continues to edge lower in most areas. Employment in high technology industries continues to be growing. However, employment in interest-sensitive industries remains depressed with almost no signs of rebounding. Employment in the lumber industry is off as much as 200 percent in some areas.

NOW accounts continue to be the major topic of interest involving FINANCIAL INSTITUTIONS. The popularity of NOW accounts varies greatly between areas and institutions. Some banks are reporting as little as 10 percent of personal demand deposits to be NOW accounts while others are reporting as much as 50 per cent. An outflow of deposits to money market mutual funds is reported by some respondents. A "leveling of the playing field" is being called for. Savings and Loan Associations are worried about the financial situation of their industry. A large number of mergers are being anticipated in hopes of creating more stable financial institutions.